



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 9/3/2002

GAIN Report #BR2612

Brazil

Grain and Feed

Update for September Lockup

2002

Approved by:

William W. Westman

U.S. Embassy

Prepared by:

Kimberly L. Svec

Report Highlights:

Post raised the 2002 wheat production forecast to 3.8 million tons and lowered the 2002 import forecast to 6.2 million tons. Post lowered the 2002/03 corn area and production forecasts to 12 million hectares and 35.4 million tons respectively. Due to the smaller production forecast, Post raised the 2002/03 corn import forecast to 800,000 tons and lowered the export forecast to 500,000 tons. The 2001/02 and 2002/03 rice area and production forecasts were lowered slightly.

Includes PSD changes: Yes

Includes Trade Matrix: No

Unscheduled Report

Brasilia [BR1], BR

Wheat	<u>1</u>
Wheat PS&D	<u>2</u>
Corn	<u>3</u>
Corn PS&D	<u>4</u>
Rice	<u>5</u>
Rice PS&D	<u>5</u>

Wheat

Post raised the 2002 wheat production forecast to 3.8 million tons. Despite a 13-percent drought-induced yield loss in Parana, the substantial increase in wheat acreage this year is expected result in a more than 20-percent increase in national production. Production in Rio Grande do Sul had been enjoying favorable weather and yields. However, below-freezing temperatures in Rio Grande do Sul in the beginning of September caused crop damage. At this point, there are no estimates on the extent of the damage.

The 2002 wheat import forecast is estimated at 6.2 million tons. Imports are expected to be one million tons lower than in 2001 due to a strong domestic crop, high international prices, difficulties importing from Argentina, an unstable and weakening currency relative to the US dollar, and weak economic growth dampening demand for wheat products. Given the difficulty in sourcing Argentine wheat, Brazilian importers are turning to alternative suppliers. The United States has enjoyed increased sales into the Brazilian market this year, as have non-traditional suppliers in Europe and the former Soviet Union whose product is entering due to relaxed phytosanitary requirements. There is considerable debate about what will happen after November 27, 2002 when Brazil is expected to enforce strict new phytosanitary regulations. None of the non-traditional suppliers have completed Pest Risk Assessments, putting their exports at risk not only after November 27, but also currently as the shipments will be rejected if there is an interception of any quarantine pests. The United States has a bilateral agreement and published import requirements for three wheat classes (HRW, SRW, and HRS), which will enable continued U.S. wheat shipments after November 27.

Brazil and Argentina are in the process of harmonizing their wheat classification rules. There is a public comment period until September 27, 2002 on the proposed rules, which are scheduled to go into effect January 1, 2003. The changes include raising the moisture content from 13 to 14 percent and creating a table for restrictions on damaged grains.

Another subject of debate in the Brazilian wheat sector relates to proposed mandatory inclusion of manioc powder in wheat flour. Wheat millers are opposed to the idea, because the blend lowers the quality of the flour and reduces its nutritional value. Furthermore, wheat millers argue that the move would not necessarily reduce the cost of flour, as millers would be forced to import manioc in times of domestic shortage.

Wheat PS&D

PSD Table						
Country	Brazil					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Harvested	1468	1468	1725	1713	2000	2006
Beginning Stocks	1250	932	700	130	900	424
Production	1660	1658	3250	3194	3700	3800
TOTAL Mkt. Yr. Imports	7289	7610	6700	7200	6000	6200
Jul-Jun Imports	7518	7610	6700	7200	6000	6100
Jul-Jun Import U.S.	53	100	0	200	0	800
TOTAL SUPPLY	10199	10200	10650	10524	10600	10424
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	200	500	300	200	200	200
TOTAL Dom. Consumption	9499	10070	9750	10100	9800	10100
Ending Stocks	700	130	900	424	800	324
TOTAL DISTRIBUTION	10199	10200	10650	10524	10600	10424

Corn

Post lowered the 2002/03 corn area and production forecasts to 12 million hectares and 35.4 million tons, respectively. Due to the smaller production forecast, post raised the 2002/03 corn import forecast to 800,000 tons, and lowered the export forecast to 500,000 tons. Post raised the stock figures for all of the years, in concordance with the latest Government statistics, which revealed that stocks were under reported and underestimated.

Acreage for the 2002/03 Brazilian summer corn crop is expected to fall as many producers shifted to soybean production. The weakening of the Brazilian currency relative to the dollar amplified the difference between soybean and corn prices, as soybeans are an export crop and corn is produced for domestic consumption and has low liquidity. Furthermore, the new US Farm Bill is spurring greater Brazilian soybean production as US soybean production is expected to drop relative to corn. Estimates point to a 5 to 10 percent reduction in Brazil's 2002/03 summer corn crop area, with a 10 to 25 percent increase in the safrinha corn area.

The Department of Rural Economy in Parana (DERAL) projects a 6-percent drop in state corn acreage for first crop corn to 1.4 million hectares, following a 41-percent loss in their safrinha due to drought. Meanwhile, soybean acreage increased 21 percent in Parana in the last two harvests. Due to the small domestic corn crop this year, corn prices in Parana rose 51 percent from August 2001 to August 2002. However, not even the strong corn prices are enough to stimulate corn production for the summer crop, as the corn market is unstable and there are no guarantees on actual prices next year. The summer 2002/03 corn crop area in Parana, six percent lower than 2001/02, is expected to be smallest since 1970 as producers shift to soybeans.

High corn prices and government incentives for corn production are insufficient to halt the drop in corn acreage for summer crop corn. However, many of the producers opting for soybeans in the summer crop are already purchasing corn seeds for the safrinha, next winter's corn crop, as they expect strong corn prices following the small summer corn crop. Sales are strongest for hybrids least susceptible to climate risks and requiring the shortest amount of time to reach maturity. While the corn safrinha acreage is likely to grow next year, it will not make up for the small summer crop. Brazil's increasing dependence on the corn safrinha concerns the sector, as the winter crop frequently suffers considerable weather damage. Furthermore, the pork and poultry sectors depend on domestic corn production and their export operations are vulnerable during corn shortages. The export sector is reluctant to use imported corn, because they promote "GMO-free" product to the European market.

Due to Brazil's emergence as a corn exporter and the domestic pork and poultry sector's dependence on the domestic corn crop, corn pricing is undergoing changes. Regardless of domestic shortages, Brazil is likely to export corn if prices are favorable. As corn producers now have an export alternative, pork and poultry producers have begun entering into pre-crop purchasing contracts at prices near export parity in order to guarantee supply. Despite the changes in the corn market, liquidity still remains low compared to soy. The majority of soybean production is exported, and the soy sector enjoys credit, financing, and input support from the private sector. Corn, on the other hand, depends on government mechanisms for support which are limited and less reliable. Therefore, soybean production will grow at the expense of corn in 2002/03.

Corn PS&D

PSD Table						
Country	Brazil					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		04/2001		04/2002		04/2003
Area Harvested	12972	12972	12100	12310	12400	12000
Beginning Stocks	600	3535	1606	4218	1631	3018
Production	41536	42289	35500	36000	37000	35400
TOTAL Mkt. Yr. Imports	293	548	525	600	525	800
Oct-Sep Imports	671	600	400	400	500	700
Oct-Sep Import U.S.	16	16	0	0	0	0
TOTAL SUPPLY	42429	46372	37631	40818	39156	39218
TOTAL Mkt. Yr. Exports	6323	5918	300	1500	1000	500
Oct-Sep Exports	3741	3741	3400	3500	1000	800
Feed Dom. Consumption	30500	32000	31700	33000	33000	34000
TOTAL Dom. Consumption	34500	36236	35700	36300	37000	37000
Ending Stocks	1606	4218	1631	3018	1156	1718
TOTAL DISTRIBUTION	42429	46372	37631	40818	39156	39218

Rice

Post lowered the 2001/02 and 2002/03 rice area and production forecasts. Rice in the Center-west is losing acreage to soybeans, while irrigated production in the South remains fairly stable. Mato Grosso, the second leading rice producer in Brazil, may experience up to a 25-percent reduction in area in 2002/03 if the Government does not implement sufficient incentives to encourage production. The rice industry in the Center-west is increasingly concerned with the worsening cycles of shortages and overproduction, and is requesting Government intervention to stabilize the situation.

Rice PS&D

PSD Table						
Country	Brazil					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		04/2001		04/2002		04/2003
Area Harvested	3250	3250	3407	3240	3500	3150
Beginning Stocks	1513	1363	1327	1110	1449	886
Milled Production	7062	7062	7480	7250	7600	7150
Rough Production	10385	10385	11000	10662	11176	10515
MILLING RATE (.9999)	6800	6800	6800	6800	6800	6800
TOTAL Imports	730	663	625	618	525	600
Jan-Dec Imports	673	663	600	618	400	600
Jan-Dec Import U.S.	0	2	0	0	0	0
TOTAL SUPPLY	9305	9088	9432	8978	9574	8636
TOTAL Exports	22	22	25	136	25	50
Jan-Dec Exports	22	22	25	136	25	50
TOTAL Dom. Consumption	7956	7956	7958	7956	8000	7956
Ending Stocks	1327	1110	1449	886	1549	630
TOTAL DISTRIBUTION	9305	9088	9432	8978	9574	8636